

**SOUTH CENTRAL KANSAS EDUCATION SERVICE CENTER
UNIFIED SCHOOL DISTRICT NO. 628
CLEARWATER, KANSAS**

**FINANCIAL STATEMENT
JUNE 30, 2015**

BFR

BUSBY FORD & REIMER, LLC

CERTIFIED PUBLIC ACCOUNTANTS

**SOUTH CENTRAL KANSAS EDUCATION SERVICE CENTER
UNIFIED SCHOOL DISTRICT NO. 628
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JUNE 30, 2015**

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BUSBY FORD & REIMER, LLC

CERTIFIED PUBLIC ACCOUNTANTS INDEPENDENT AUDITORS' REPORT

**Board of Directors
South Central Kansas Education Service Center
Unified School District No. 628
Clearwater, Kansas**

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures and unencumbered cash balances of **South Central Kansas Education Service Center, Clearwater, Kansas**, as of and for the year ended **June 30, 2015** and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the *Kansas Municipal Audit and Accounting Guide* as described in Note 1 to meet the financial reporting requirements of the State of Kansas. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit and Accounting Guide*. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on auditors' judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Board of Directors
South Central Kansas Education Service Center
Unified School District No. 628**

Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America

As described in Note 1 of the financial statement, the financial statement is prepared by **South Central Kansas Education Service Center, Clearwater, Kansas**, to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide*, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on Accounting Principles Generally Accepted in the United States of America

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of **South Central Kansas Education Service Center, Clearwater, Kansas**, as of **June 30, 2015**, or changes in financial position and cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of **South Central Kansas Education Service Center, Clearwater, Kansas**, as of **June 30, 2015**, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide* described in Note 1.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The summary of regulatory basis expenditures-actual and budget, individual fund schedule of regulatory basis receipts and expenditures-actual and budget and individual fund schedule of regulatory basis receipts and expenditures-actual (Regulatory-Required Supplementary Information as listed in the table of contents), schedule of expenditures of federal awards (Federal Award Information as listed in the table of contents) and individual fund schedule of regulatory basis receipts and expenditures-IDL Network Fund (Additional Information as listed in the table of contents) are presented for analysis and are not a required part of the basic financial statement, however are required to be presented under the provisions of the *Kansas Municipal Audit and Accounting Guide*. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement.

**Board of Directors
South Central Kansas Education Service Center
Unified School District No. 628**

The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statement as a whole, on the basis of accounting described in Note 1.

The 2014 Actual column presented in the individual fund schedules of regulatory basis receipts and expenditures-actual and budget, individual fund schedules of regulatory basis receipts and expenditures-actual (as listed in the table of contents) and individual fund schedule of regulatory basis receipts and expenditures-IDL Network Fund (as listed in the table of contents) is also presented for comparative analysis and is not a required part of the 2014 basic financial statement upon which we rendered an unmodified opinion dated September 17, 2014. The 2014 basic financial statement and our accompanying report are not presented herein, but are available in electronic form from the web site of the Kansas Department of Administration at the following link <http://da.ks.gov/ar/muniserv/>. Such 2014 comparative information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2014 basic financial statement. The 2014 comparative information was subjected to the auditing procedures applied in the audit of the 2014 basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2014 basic financial statement or to the 2014 basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2014 comparative information is fairly stated in all material respects in relation to the 2014 basic financial statement as a whole, on the basis of accounting described in Note 1.

Busby Ford & Reimer, LLC

Busby Ford & Reimer, LLC
October 1, 2015

SOUTH CENTRAL KANSAS EDUCATION SERVICE CENTER
UNIFIED SCHOOL DISTRICT NO. 628
SUMMARY OF CASH RECEIPTS, EXPENDITURES,
AND UNENCUMBERED CASH
REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2015

Fund	Beginning Unencumbered Cash Balance	Prior Year Canceled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add		Ending Cash Balance
						Encumbrances and Accounts Payable		
General Fund	\$ 6,239,966	\$ 85,085	\$ 7,475,549	\$ 6,685,119	\$ 7,115,481	\$ 212,795	\$	7,328,276
Special Purpose Funds								
Federal Funds	0	0	140,780	140,780	0	0	0	0
	<u>\$ 6,239,966</u>	<u>\$ 85,085</u>	<u>\$ 7,616,329</u>	<u>\$ 6,825,899</u>	<u>\$ 7,115,481</u>	<u>\$ 212,795</u>	<u>\$</u>	<u>7,328,276</u>
Composition of Cash:						Checking Accounts	\$	7,328,276

The notes to the financial statement are an integral part of this statement.

**SOUTH CENTRAL KANSAS EDUCATION SERVICE CENTER
UNIFIED SCHOOL DISTRICT NO. 628
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2015**

Note 1 - Summary of Significant Accounting Policies:

Financial Reporting Entity

South Central Kansas Education Service Center, Unified School District No. 628 (the primary government), is an interlocal unified school district established as a cooperative to provide special education services to participating unified school districts. The District cannot levy taxes, but receives its revenue from federal and state aid and contracted participating unified school districts for special education services.

KMAAG Regulatory Basis of Presentation Fund Definitions:

General Fund-The primary operating fund. Used to account for all unrestricted resources except those required to be accounted for in another fund.

Special Purpose Funds-To account for the proceeds of specific receipts (other than major capital projects) that are restricted by law or administrative action to expenditure for specific purposes.

Regulatory Basis of Accounting and Departure from Accounting Principles Generally accepted in the United States of America

The KMAAG regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis receipts and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

The District has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of accounting principles generally accepted in the United States of America and allowing the municipality to use the regulatory basis of accounting.

Budget and Assessment Cycle

The District prepares a budget under the Kansas cash basis and budget laws to determine assessments to member districts and other financial planning purposes.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison schedules are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

**SOUTH CENTRAL KANSAS EDUCATION SERVICE CENTER
UNIFIED SCHOOL DISTRICT NO. 628
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2015**

All legal annual operating budgets are prepared using the modified accrual basis of accounting, modified further by the encumbrance method of accounting. Revenues are recognized when cash is received. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments by the District for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All unencumbered appropriations (legal budget expenditure authority) lapse at year-end.

A legal operating budget is not required for capital projects funds, trust funds, and the following special purpose fund: Federal Funds.

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

Note 2 - Defined Benefit Pension Plan:

Plan Description

The District participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing, multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et. seq. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 South Kansas Ave., Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Funding Policy

K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERS member-employee contribution rates. Effective July 1, 2009, KPERS has two benefit structures and funding depends on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERS member-employee contribution rate of 5% of covered salary for Tier 1 members and at 6% of covered salary for Tier 2 members. Member employees' contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code.

The State of Kansas is required to contribute the statutory required employers share.

Net Pension Liability

The total pension liability for KPERS was determined by an actuarial valuation as of December 31, 2013, which was rolled forward to June 30, 2014. As of June 30, 2014, the net pension liability for KPERS was \$8,291,794,910. KPERS has determined the District's proportionate share of the net pension liability is \$4,293,502 as of June 30, 2014. The complete actuarial valuation report including all actuarial assumptions and methods is publically available on the website at www.kpers.org or can be obtained as described in the first paragraph above.

**SOUTH CENTRAL KANSAS EDUCATION SERVICE CENTER
UNIFIED SCHOOL DISTRICT NO. 628
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2015**

Note 3 - Reimbursed Expenses:

The District records reimbursable expenditures in the fund that makes the disbursement and records reimbursements as revenue to the fund. For purposes of budgetary comparisons, the expenditures are properly offset by the reimbursements.

Note 4 - Deposits:

K.S.A. 9-1401 establishes the depositories which may be used by the Government. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The Government has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the District's investment of idle funds to time deposits, open accounts and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

Concentration of credit risk. State statutes place no limit on the amount the District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the Government's deposits may be returned to it. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured at June 30, 2015.

At June 30, 2015, the District's carrying amount of deposits was \$7,328,276 and the bank balance was \$7,900,856. The bank balance is held by one bank. Of the bank balance, \$251,021 was covered by depository insurance, and the remaining \$7,649,835 was collateralized with securities held by the pledging financial institution's agent in the District's name.

Note 5 - Subsequent Events:

The District has evaluated subsequent events through October 1, 2015, the date which the financial statement was available to be issued.

**SOUTH CENTRAL KANSAS EDUCATION SERVICE CENTER
UNIFIED SCHOOL DISTRICT NO. 628
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2015**

Note 6 - Contingencies:

Grant Programs

The District participates in various federal and state grant programs. These grant programs are often subject to additional audits by agents of the granting agency, the purpose of which is to ensure compliance with the specific conditions of the grant. Any liability for reimbursement which may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for all risks of loss. Settled claims resulting from these risks have not materially exceeded commercial insurance coverage in any of the past three years.

Note 7 - Compensated Absences:

Vacation

Twelve month employees are provided 10 days paid vacation annually. All earned vacation time is to be taken from July 1 to June 30 of each fiscal year and cannot be accumulated. Hence, there is no estimated liability for accrued vacation pay at June 30, 2015.

Sick leave

Twelve month employees are granted 12 days of leave per year with the ability to accumulate up to 120 days of sick leave if the days are not used in the current year. Nine month employees working 35 hours or more per week are granted 9 days of leave per year which can accumulate up to 70 days if sick leave days are not used in the current year. Terminated or retiring employees are not compensated for their unused sick leave.

Note 8 - Postemployment Benefits:

As provided by K.S.A. 12-5040, the District allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the local government is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in the financial statement.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the government makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the government under this program.

**SOUTH CENTRAL KANSAS EDUCATION SERVICE CENTER
UNIFIED SCHOOL DISTRICT NO. 628
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2015**

Note 9 - Lease Commitments:

At June 30, 2015, the District leased real estate and an automobile under several noncancelable leases. Future minimum lease payments required under the operating leases are as follows:

6/30/2016	\$	82,598
6/30/2017		59,331
6/30/2018		52,431
6/30/2019		52,431
6/30/2020		8,299
	\$	<u>255,090</u>

Rent expense for the year ended June 30, 2015, was \$162,607.

The District entered into a Master Lease Agreement with the Valley State Bank of Belle Plaine, Kansas for the lease of various copiers and related equipment. The equipment is subsequently leased to other districts. The terms of the agreement call for monthly payments of principle and interest. Interest rates vary between 3.00% and 4.00%. The monthly payments are adjusted as equipment is paid off.

Changes in the Master Lease Agreement for the year ended June 30, 2015 were as follows:

Balance Beginning of Year	Additions	Reductions/ Payments	Balance End of Year	Interest Paid
<u>\$ 423,892</u>	<u>\$ 173,421</u>	<u>\$ 229,825</u>	<u>\$ 367,488</u>	<u>\$ 15,432</u>

Future minimum lease payments under the Master Lease Agreement are as follows:

	Principal	Interest	Total
6/30/2016	\$ 129,831	\$ 10,949	\$ 140,780
6/30/2017	108,217	6,545	114,762
6/30/2018	81,650	3,022	84,672
6/30/2019	39,453	836	40,289
6/30/2020	8,337	64	8,401
	<u>\$ 367,488</u>	<u>\$ 21,416</u>	<u>\$ 388,904</u>

**REGULATORY REQUIRED
SUPPLEMENTARY INFORMATION**

SOUTH CENTRAL KANSAS EDUCATION SERVICE CENTER
UNIFIED SCHOOL DISTRICT NO. 628
SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET
REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2015

Fund	Certified Budget	Adjustment to		Adjustment for		Total Budget for Comparison	Expenditures		Variance - Over (Under)
		Legal Max	Comply with	Budget Credits	Qualifying		Chargeable to Current Year		
General Fund	\$ 9,541,432	\$ 0	0	0	0	\$ 9,541,432	\$ 6,685,119	\$	(2,856,313)
Special Purpose Funds	XXXXXXXXXX	XXXXXXXXXX	XXXXXXXXXX	XXXXXXXXXX	XXXXXXXXXX	XXXXXXXXXX	140,780		XXXXXXXXXX
Federal Funds	\$ 9,541,432	\$ 0	0	0	0	\$ 9,541,432	\$ 6,825,899	\$	(2,856,313)

**SOUTH CENTRAL KANSAS EDUCATION SERVICE CENTER
UNIFIED SCHOOL DISTRICT NO. 628
SCHEDULE OF CASH RECEIPTS AND EXPENDITURES -
ACTUAL AND BUDGET
REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2015
(With Comparative Actual Totals for the Prior Year Ended June 30, 2014)**

General Fund	Prior Year	Current Year		Variance - Over (Under)
		Actual	Budget	
Cash Receipts				
Local Sources	\$ 7,300,556	\$ 7,470,549	\$ 11,033,236	\$ (3,562,687)
Federal Sources	0	5,000	116,131	(111,131)
	<u>7,300,556</u>	<u>7,475,549</u>	<u>\$ 11,149,367</u>	<u>\$ (3,673,818)</u>
Expenditures				
Instruction	2,397,717	2,476,535	\$ 2,691,204	\$ (214,669)
General Administration	3,738,823	4,151,065	6,752,078	(2,601,013)
Operations & Maintenance	<u>340,820</u>	<u>57,519</u>	<u>98,150</u>	<u>(40,631)</u>
	<u>6,477,360</u>	<u>6,685,119</u>	<u>\$ 9,541,432</u>	<u>\$ (2,856,313)</u>
Receipts Over (Under) Expenditures	823,196	790,430		
Unencumbered Cash, Beginning	5,404,848	6,239,966		
Prior Year Canceled Encumbrances	<u>11,922</u>	<u>85,085</u>		
Unencumbered Cash, Ending	\$ 6,239,966	\$ 7,115,481		

**SOUTH CENTRAL KANSAS EDUCATION SERVICE CENTER
UNIFIED SCHOOL DISTRICT NO. 628
SCHEDULE OF CASH RECEIPTS AND EXPENDITURES - ACTUAL
REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2015
(With Comparative Actual Totals for the Prior Year Ended June 30, 2014)**

<u>Federal Funds</u>	Prior Year Actual	Current Year Actual
Cash Receipts		
Federal Sources	\$ 144,719	\$ 140,780
	<u>144,719</u>	<u>140,780</u>
Expenditures		
Instruction	17,445	16,830
General Administration	127,274	123,950
	<u>144,719</u>	<u>140,780</u>
Receipts Over (Under) Expenditures	0	0
Unencumbered Cash, Beginning	0	0
Prior Year Canceled Encumbrances	<u>0</u>	<u>0</u>
Unencumbered Cash, Ending	<u>\$ 0</u>	<u>\$ 0</u>

FEDERAL AWARD INFORMATION

SOUTH CENTRAL KANSAS EDUCATION SERVICE CENTER
UNIFIED SCHOOL DISTRICT NO. 628
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

Grant Title (Passes Through Kansas Department of Education)	Federal CFDA No.	Program Amount	Unencumbered		Receipts	Expenditures	Unencumbered	
			Cash	7-1-14			Cash	6-30-15
Department of Education								
Program Improv Sec	84.048	\$ 121,131	\$	0	\$ 121,131	\$ 121,131	\$	0
English Language Acquisition	84.365	24,649		0	24,649	24,649		0
Total Federal Awards		\$ 145,780	\$	0	\$ 145,780	\$ 145,780	\$	0

ADDITIONAL INFORMATION

SOUTH CENTRAL KANSAS EDUCATION SERVICE CENTER
UNIFIED SCHOOL DISTRICT NO. 628
SCHEDULE OF CASH RECEIPTS AND EXPENDITURES
IDL NETWORK FUND
REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2015
(With Comparative Actual Totals for the Prior Year Ended June 30, 2014)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Local Sources	\$ 130,736	\$ 125,041
	<u>130,736</u>	<u>125,041</u>
Expenditures		
Instruction	45,719	49,049
General Administration	74,189	72,082
	<u>119,908</u>	<u>121,131</u>
Receipts Over (Under) Expenditures	10,828	3,910
Unencumbered Cash, Beginning	263,151	273,979
Prior Year Canceled Encumbrances	<u>0</u>	<u>0</u>
Unencumbered Cash, Ending	<u>\$ 273,979</u>	<u>\$ 277,889</u>